

Message Text

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PAGE 01 LONDON 00695 01 OF 02 161639Z

53

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 ISO-00 SP-02 AID-05

NSC-05 RSC-01 CIEP-01 TRSE-00 SS-15 STR-01 OMB-01

CEA-01 L-02 H-01 CIAE-00 COME-00 FRB-01 INR-07

NSAE-00 LAB-04 SIL-01 SAM-01 AGR-05 PA-01 PRS-01

USIA-06 /100 W

----- 053986

R 161627Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7315

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY CANBERRA

AMEMBASSY MBABANE

AMEMBASSY PORT LOUIS

AMEMBASSY PORT OF SPAIN

AMEMBASSY SUVA

AMEMBASSY KINGSTON

AMEMBASSY GEORGETOWN

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 00695

E.O. 11652: GDS

TAGS: EAGR, ETRD

SUBJ: SUGAR: UK SUGAR NEGOTIATIONS AT IMPASSE

REF: LONDON 16681

1. SUMMARY. NEGOTIATION BETWEEN THE UK AND FORMER

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PAGE 02 LONDON 00695 01 OF 02 161639Z

COMMONWEALTH SUGAR SUPPLIERS--WHICH STARTED IN UK AND

CONTINUED IN BRUSSELS LFOR SUPPLY OF SOME 1.4 MILLION TON OF SUGAR)HAVE BEEN INDEFINITELY SUSPENDED, WITH NEGOTIATORS OF BOTH SIDES PRESUMABLY NOW TO UNDERTAKE CONSULTATION WITH THEIR GOVERNMENTS ON WHAT TO DO NEXT. FAILURE TO REACH AGREEMENT WAS BASICALLY (BUT NOT ENTIRELY) ON PRICE, WITH NEGOTIATORS AT ONE POINT ONLY SOME 50 POUNDS PER TON APART. NEVERTHELESS, MINISTRY AND TRADE SOURCES BELIEVE A WEDGE MIGHT BE DRIVEN BETWEEN SOUTHERN HEMISPHERE AND CARIBBEAN PRODUCERS IN ORDER TO FORCE EVENTUAL AGREEMENT. ALTHOUGH INTENSIFICATION OF SUGAR HOARDING SEEMS PROBABLE WITH THIS LATEST ROUND OF "SUGAR GLOOM NEWS," DRAWDOWNS UNDER THE EC SUBSIDIZATION SCHEME (LARDINOIS PROPOSAL) ARE EXPECTED TO MAINTAIN UK SUPPLIES IN THE SHORT-TERM. WE TEND TO ACCEPT THE ANALYSIS THAT THIS LATEST TURN HAS NOT MATERIALLY CHANGED THINGS. THE EFFECT ON THE WORLD MARKET--AND PARTICULARLY THE IMPLICATION FOR US SUPPLIES--FOR THE MOMENT SHOULD NOT BE GREAT. END SUMMARY.

2. PRESS REPORTS DATE-LINED BRUSSELS AND CONFIRMED LOCALLY STATE NEGOTIATIONS BETWEEN UK AND COMMONWEALTH SUGAR PRODUCERS FOR DELIVERY OF SOME 1.4 MILLION TONS OF RAW SUGAR WERE BROKEN OFF IN BRUSSELS JANUARY 14 WHEN AGREEMENT ON PRICE PROVED IMPOSSIBLE. THE IMPORTANCE OF THIS FOR BRITAIN IS THAT THE UK MUST IMPORT ABOUT TWO-THIRDS OF ITS RAW SUGAR NEEDS (FOR LOCAL CONSUMPTION AND TO MUCH LESSER EXTENT, RE-EXPORT) DURING 1975, A FIGURE WHICH COULD BE IN NEIGHBORHOOD OF 1.8 MILLION TONS. MOREOVER, SUGAR--AND THE LACK THEREOF-- ALWAYS HAS DOMESTIC POLITICAL IMPLICATIONS AND COULD BECOME A FACTOR IN THE UK'S CONTINUED EC ASSOCIATION. TALKS BEGAN IN LONDON ABOUT TWO WEEKS AGO, THEN MOVED TO BRUSSELS. A MINAG SOURCE TOLD EMBOFFS THAT THE UK HAD OFFERED 250 POUNDS PER TON, CIF LONDON, FOR 1975 DELIVERY, BUT THAT THE SUPPLIERS' SPOKESMAN, P.J. PATTERSON OF JAMAICA, BEST TAKING PRICE WAS 290 POUNDS FOR EIGHTEEN MONTHS--OR POSSIBLY ABOUT 300 POUNDS FOR TWELVE MONTHS (PRESS REPORTED PATTERSON WILLING TO LOWER HIS ACCEPTANCE PRICE TO 283 POUNDS FOR CONFIDENTIAL

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PAGE 03 LONDON 00695 01 OF 02 161639Z

FIVE-YEAR CONTRACT). FINANCIAL TIMES REPORTED THAT AT TIME OF COLLAPSE OF TALKS IN BRUSSELS, TWO SIDES WERE EVEN FARTHER APART THAN THEY HAD BEEN IN LONDON. WHILE RESUMPTION OF TALKS NOT REPT NOT YET SCHEDULED, THE MINAG OFFICIAL DESCRIBES THEM AS "SUSPENDED" RATHER THAN ENDED. MINAG PEART WILL RETURN TO LONDON JANUARY 16 FOR CONSULTATIONS AND PRESUMABLY PRODUCER REPS WILL DO SAME WITH THEIR GOVERNMENTS.

3. MINAG IS NOT PARTICULARLY DISCOURAGED SINCE (A)
IT SEES AN OPPORTUNITY TO DRIVE A WEDGE BETWEEN THE
CARIBBEAN AND SOUTHERN HEMISPHERE PRODUCERS IN ORDER
TO GET AN ACCEPTABLE PRICE, AND (B) IT BELIEVES
SHORT-TERM NEEDS CAN BE MET BY DRAWDOWNS UNDER LARDINOIS
SCHEME. IN REGARD TO (A), THE GENERAL MARKET TREND,
AT LEAST FOR THE MOMENT, SEEMS TO FAVOR THE UK. THE
LONDON DAILY PRICE HAS DROPPED FROM A HEIGHT OF.650
POUNDS PER TON, NOVEMBER 21 TO 360 POUNDS JANUARY 14.
MOREOVER, PATTERSON'S EFFORT TO GET AN EIGHTEEN-MONTH
CONTRACT, AT 290 POUNDS, ACCORDING TO MINISTRY IS NOT
JUSTIFIED BY PRESENT FUTURES PRICES, ABOUT 245 POUNDS

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PAGE 01 LONDON 00695 02 OF 02 161637Z

53

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 00695

FOR MARCH 1976. AGAINST THIS BACKGROUND, THE VIEW IS
THAT FIJI, MAURITIUS, AND SWAZILAND,
PARTICULARLY, MIGHT SOON COME TO TERMS, LEAVING THE
CARIBBEAN PRODUCERS ISOLATED.

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PAGE 02 LONDON 00695 02 OF 02 161637Z

4. CONCERNING (B), THE UK HAS ALREADY DRAWN DOWN A
SMALL AMOUNT OF SUGAR UNDER THE LARDINOIS SCHEME
AND OFFICIALS SEEM CONFIDENT THAT PERHAPS AS MUCH AS
300,000 TONS ADDITIONAL MIGHT BE DRAWN UPON
WITH RELATIVE EASE. FOR THE MOMENT, AT LEAST, ONE
HITCH (SEE REFTTEL) SEEMS TO HAVE BEEN RESOLVED SINCE
THE LONDON AND NEW YORK MARKETS HAVE MOVED INTOFILL
THE GAP CREATED BY THE COLLAPSE OF THE PARIS WHITE
SUGAR MARKET. UNDER THE LARDINOIS PROPOSAL, SUPPLIES
FOR THE UK (AND OTHER SHORT EC AREAS) WERE TO BE
SUBSIDIZED IN PART BY A DIRECT SUBSIDY FROM THE EC
AND IN PART, INDIRECTLY, BY SALE OF SUGAR FUTURES (FROM
NEXT YEAR'S EUROPEAN BEET CROP) ON THE PARIS WHITE
SUGAR MARKET. HOWEVER, SO FAR THE SCHEME HAS BEEN
MADE TO WORK IN THE ABSENCE OF PARIS BY TRADING IN RAW
SUGAR MARKETS.

5. WE THINK IT IS LIKELY THAT THE LATEST HEADLINES
WILL GIVE SOME NEW IMPETUS TO HOARDING BY HOUSEWIVES,
BUT AGREE WITH THE ANALYSIS THAT THINGS HAVE NOT TAKEN
A FUNDAMENTAL TURN FOR THE WORSE. SIMILARLY, FOR THE
MOMENT, THE INFLUENCE OF THIS LATEST DEVELOPMENT ON THE
MARKET OR THE IMPLICATIONS FOR US SUPPLIES SHOULD NOT
BE GREAT.

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